

## Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 CIAE-00 H-02 INR-10 L-03 NSAE-00 NSC-10

PA-03 RSC-01 PRS-01 SS-15 USIA-12 EB-11 COME-00

TRSE-00 OPIC-12 CIEP-02 OMB-01 RSR-01 /102 W

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FOR ASSISTANT SECRETARY KUBISCH

E. O. 11652: GDS

TAGS: ECON, EFIN, EGEN, AR

SUBJECT: NATIONALIZATION OF US BANKING INTERESTS IN ARGENTINA

REFS: A. BA 4430, B. BA 4402, C. BA 4367. D. STATE 120156,

E. STATE 118843

1. I CALLED ON FINMIN GELBARD AT 1130 JUNE 27 PER REFTELS. I WAS ACCOMPANIED BY DCM AND GELBARD BY HIS UNDERSECRETARY ORLANDO D' ADAMO. FOLLOWING CORDIAL INTRODUCTORY REMARKS BY ME AND BY GELBARD, I SAID WE HAD COME TO EXPRESS USG CONCERN OVER CERTAIN ASPECTS OF PROPOSED LAW PROVIDING FOR EXPROPRIATION OF EIGHT ARGENTINE BANKS PURCHASED BY FOREIGN BANKS SINCE 1966 OF WHICH FOUR INVOLVE AMERICAN OWNERSHIP. WE HAD UNDERSTOOD US BANKS ACTED WITH FULL APPROVAL AND IN SOME CASES WITH SUBSTANTIAL ENCOURAGEMENT FROM CENTRAL BANK BECAUSE LOCAL BANKS AT THAT TIME WERE IN FINANCIAL DIFFICULTIES THREATENING CENTRAL BANK INTERVENTION OR INCREASED UNEMPLOYMENT. MOREOVER WE BELIEVE EXPROPRIATION COULD UNSETTLE FOREIGN INVESTMENT CLIMATE ADVERSELY AFFECTING IMPORTANT FOREIGN CREDIT SOURCES NEEDED BY ARGENTINA. SINCE EIGHT BANKS INVOLVED HANDLE LESS THAN FOUR PER CENT OF PRIVATE COMMERCIAL BANKING OPERATIONS IN ARGENTINA, WE ALSO WONDERED WHY GOA FINDS EXPROPRIATION IMPORTANT TO ARGENTINE NATIONAL INTERESTS.

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2. I WENT ON TO SAY THAT AS MINISTER GELBARD PROBABLY AWARE, USG POLICY ON EXPROPRIATION OF AMERICAN FOREIGN INVESTMENT IS TO INTERPOSE NO OBJECTION PROVIDED HOST GOVERNMENT DETERMINES ACTION IS IN PUBLIC INTEREST, THERE IS NO DISCRIMINATION AS AMONG US AND

OTHER FOREIGN INVESTMENTS AND THAT PROMPT ADEQUATE AND EFFECTIVE COMPENSATION BE OFFERED. REGARDING LATTER POINT WE NOTE THAT DRAFT LEGISLATION PROVIDES COMPENSATION FOR ONLY CERTAIN SPECIFIED ASSETS BUT OMITTS PROVISION TO COVER INTANGIBLE ASSETS DEVELOPMENT OF WHICH IN CASE OF CERTAIN AMERICAN BANKS INVOLVED SUBSTANTIAL COSTS SINCE TAKE- OVER. WE ARE THEREFORE CONCERNED ADEQUACY OF REIMBURSEMENT MAY CONSTITUTE POTENTIAL PROBLEM. NOR DOES LAW SPECIFY ARRANGEMENTS ALLOWING REPARTRIATION OF COMPENSATION WHICH MAY BE RECEIVED BY FOREIGN OWNERS.

3. IN PASSING I NOTED THAT DAVID ROCKEFELLER HAD EXPRESSED HIS PERSONAL CONCERN TO ASSISTANT SECRETARY KUBISCH AND THAT IT SEEMED CURIOUS COINCIDENCE THAT AT SAME TIME CHASE MANHATTAN OPENING A MOSCOW BRANCH IT SHOULD BE ASKED TO PULL OUT OF ARGENTINA.

4. GELBARD REPLIED THAT GOA ACTION WAS ENTIRELY PREDICTABLE IN TERMS OF JUSTICIALIST PARTY PLATFORM AND PRE- ELECTION PRONOUNCEMENTS. IN FACT HE HIMSELF AT THE TIME THE LOCAL BANKS WERE BOUGHT OUT HAD STATED PUBLICLY THAT THE ACTION WAS INCORRECT AND CONTRARY TO ARGENTINE NATIONAL INTERESTS. HE RECALLED THAT HE HAD SO STATED IN AT LEAST TWO SPEECHES IN NEW YORK AND WASHINGTON. GELBARD ASKED WHY THE FOREIGN BANKS HAD NOT OPENED BRANCHES IN ARGENTINA DIRECTLY RATHER THAN RUNNING THE OBVIOUS RISK OF LOSING PRESTIGE AND MORAL STANDING FAR GREATER THAN WHATEVER PROFIT THEY MIGHT MAKE. HE SAID THAT IN AT LEAST SOME CASES THE REAL MOTIVATION CAME FROM UNSCRUPULOUS LOCAL PARTNERS IN THESE OPERATIONS. HE SAID FNCB CASE WAS MOST DAMAGING FROM PUBLIC RELATIONS STANDPOINT, SINCE IT AFFECTED NUMEROUS SHAREHOLDERS OF TWO SMALL PROVINCIAL BANKS. HE SPECULATED FNCB MUST HAVE REGRETTED GETTING INVOLVED BECAUSE THE LOSS OF GOOD WILL FAR OUTWEIGHTED BENEFITS.

5. AS REGARDS FOREIGN BANKING OPERATIONS IN ARGENTINA, GELBARD SAID NEW GOVERNMENT HAS NOTHING AGAINST THEM, IN FACT GOA RULES ARE MUCH MORE LIBERAL THAN IN OTHER COUNTRIES INCLUDING US. D' ADAMO INTERJECTED AT THIS POINT COMMENT THAT CLAYTON ACT PROHIBITING INTERLOCKING DIRECTORATES MUCH MORE STRINGENT THAN LOCAL RULE AND LIMITED OFFICIAL USE  
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WENT ON TO OBSERVE THAT ARGENTINA RANKS THIRD IN WORLD ON NUMBER OF BRANCHES OF US BANKS AFTER BAHAMAS AND UK, CITING RECENT US NEWS & WORLD REPORT ARTICLE.

6. AS REGARDS METHODOLOGY, GELBARD SAID NEW GOVERNMENT WOULD HAVE PREFERRED TO NEOGITATE TERMS OF DISINVESTMENT. HOWEVER, BECAUSE DIRECT NEGOTIATIONS WITH BANKS WOULD HAVE LEFT AURA OF SUSPICION ACCOMPANIED BY CONSTANT BARRAGE OF NEWS MEDIA SPECULATION OVER MANY MONTHS, THEY HAD COME TO CONCLUSION IT WAS ADVISABLE TO MAKE CLEAN BREAK. HE SAID INDEMNIZATION WILL BE ARRANGED THROUGH A FORMAL PROCESS OF ASSESSING NET WORTH AND THAT FOREIGN BANKS WILL HAVE VOICE IN PROCESS. GOA WILL REACH FINAL SETTLEMENT AND MAKE DIRECT PAYMENT TO FOREIGN BANKS AFTER WHICH IT WILL PROBABLY OFFER SHARES

AT PUBLIC AUCTION.

7. ON REPATRIATION, HE SAID SINCE IN SOME CASES ( THOUGH NOT US BANKS) PURCHASES WERE MADE WITH LOCAL FUNDS, REPATRIATION WILL DEPEND ON EXTENT TO WHICH NEW FUNDS BROUGHT IN FROM ABROAD. HE GAVE ASSURANCE THAT BOTH INDEMNIZATION AND REPATRIATION WOULD BE CARRIED OUT WITH UTMOST REGARD TO FAIRNESS AND CORRECTNESS.

9. WE OBSERVED THAT OF THREE AMERICAN BANKS INVOLVED, CHASE WAS MOST DIFFICULT AND SENSITIVE BECAUSE OF SIZE OF INVESTMENT, OVER- ALL CREDIT EXPOSURE IN ARGENTINA, AND EXTENT OF ADDITIONAL INVESTMENT IN INTANGIBLES AS FOR EXAMPLE EXTENSIVE MANAGEMENT TRAINING. WE SAID THAT ATMOSPHERE WOULD BE GREATLY IMPROVED IF SOME WAY COULD BE FOUND TO PERMIT CHASE AND MORGAN TO CONTINUE THEIR OPERATIONS IN ARGENTINA AS GOA APPARENTLY INTENDED TO ALLOW OTHER THREE US BANKS TO DO. HOWEVER, INITIAL READING OF PROPOSED FOREIGN INVESTMENT LAW DID NOT SEEM TO OFFER GREAT HOPE ON THIS SCORE. GELBARD REPLIED THAT HE COULD SEE NO REASON WHY CHASE OR MORGAN COULD NOT CONVERT LOCAL OPERATIONS TO BRANCH OR AGENCY BASIS, ALTHOUGH ON FURTHER QUESTIONING HE RULED OUT POSSIBILITY OF THEIR OPERATING WITH LOCAL DEPOSITS.

10. COMMENT. GELBARD WAS RELAXED AND CORDIAL THROUGHOUT MEETING. HE CONVEYED IMPRESSION THAT GOA WAS IN FACT DOING US A FAVOR BY EXCISING AN ANOMALY FROM FOREIGN INVESTMENT AREA WHICH HAD BEEN CAUSING IRRITATION IN BROADER BODY OF OVER- ALL BILATERAL RELATIONS. IN SAME VEIN, WHEN DISCUSSION TURNED TO DRAFT FOREIGN INVESTMENT LAW HE EXPRESSED VIEW THAT IT PROVIDED CLEAR SET OF RULES AND THAT  
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THIS IS JUST WHAT FOREIGN INVESTORS HAVE BEEN SAYING THEY NEEDED. HIS ASSURANCE REGARDING INDEMNIZATION AND REPATRIATION IS DOUBTLESS SINCERE IN SAME FASHION. IT SEEMS CLEAR THAT GOA INTENDS TO CARRY THROUGH WITH DELIBERATE SPEED ON ITS AVOWED COURSE OF EXPROPRIATION.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 10 MAY 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** n/a  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 27 JUN 1973  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** collinp0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
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**Legacy Key:** link1973/newtext/t19730635/abqceele.tel  
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**Locator:** TEXT ON-LINE  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** A. BA 4430, B. BA 4402, C. BA 4367. D. STATE 120156, E. STATE 118843  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** collinp0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 26 SEP 2001  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <26-Sep-2001 by martinml>; APPROVED <26 FEB 2002 by collinp0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> jms 980225  
**Subject:** NATIONALIZATION OF US BANKING INTERESTS IN ARGENTINA  
**TAGS:** ECON, EFIN, EGEN, AR  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005